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ANNUAL
REPORT
1975

File

FINLAYSON ENTERPRISES LTD.

FINLAYSON ENTERPRISES LTD.

DIRECTORS

G. A. BODDY

F. B. BROOKS-HILL

R. W. FINLAYSON

R. H. HOPPE

D. A. MCINTOSH, Q.C.

H. SUTHERLAND, Q.C.

R. G. WILSON

364-8241

OFFICERS

President	- - - - -	R. W. FINLAYSON
Vice-President	- - - - -	G. A. BODDY
Vice-President	- - - - -	R. G. WILSON
Secretary	- - - - -	H. SUTHERLAND, Q.C.
Treasurer	- - - - -	J. C. LONGWORTH

REGISTRAR AND TRANSFER AGENT

CANADA PERMANENT TRUST COMPANY
TORONTO, ONTARIO WINNIPEG, MANITOBA

BANKERS

THE BANK OF NOVA SCOTIA
TORONTO, ONTARIO

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FINLAYSON ENTERPRISES
LTD.

INTERIM REPORT
TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
JUNE 30, 1975

To the Shareholders of

FINLAYSON ENTERPRISES LTD.

The downward trend in consumer demand for your Companies' products, which was felt in the fourth quarter of 1974 and continued into the first quarter of 1975, has recently shown some signs of bottoming. The results of the first half year in the baby products and fragrance divisions showed an improvement over budget. The domestic textile division was slightly below budget and considerably below 1974.

The restricted "open to buy" positions, slow collections and adverse trends noted in previous reports continued to affect operations. Costs are increasing, with particular pressure on imported products due to the weaker Canadian Dollar. Consequently, profit margins have been under pressure and an operating loss for the period resulted. This was offset by tax loss carry overs and a small after tax profit was achieved.

It must be stressed that a large percentage of our annual business volume historically occurs in the last half of the year. We are budgeting for a return to a more normal profit position in the next six months. If the slight sales improvement continues, this budget should be achieved.

R. W. FINLAYSON,
President

August 5, 1975

FINLAYSON ENTERPRISES LTD.

Consolidated Statement of Profit and Loss (Unaudited)

	Six Months Ended June 30, 1975	June 30, 1974
Sales.....	\$2,669,786	\$2,981,347
Profit (Loss) on Operations.....	(8,541)	90,369
Provision for Income Taxes (refundable).....	(4,139)	76,884
Profit (Loss) on Operations before Extraordinary Item.....	(4,402)	13,485
Extraordinary Item—recovery of income tax through carry-forward of loss of prior year.....	10,857	—
Net Profit.....	\$ 6,455	\$ 13,485
Earnings (Deficiency) per Common Share after providing for dividends on Preferred Shares:)		
Before Extraordinary Item.....	(32.7 cents)	(15.7 cents)
After Extraordinary Item.....	(18.7 cents)	(15.7 cents)

Consolidated Statement of Changes in Financial Position (Unaudited)

	Six Months Ended June 30, 1975	June 30, 1974
Source of Funds		
Consolidated Net Profit.....	\$ 6,455	\$ 13,485
Add: Depreciation, a non-cash outlay.....	30,882	21,673
Funds provided from operations.....	\$ 37,337	\$ 35,158
Application of Funds		
Net Acquisition of Fixed Assets.....	24,627	22,730
Dividends: Preferred Shares.....	21,011	25,680
Increase in Cash Value of Life Insurance Policies.....	1,453	1,537
Reduction of Long Term Debt.....	1,498	1,500
Total Funds Applied.....	\$ 48,589	\$ 51,447
Decrease in Consolidated Working Capital.....	\$ 11,252	\$ 16,289
Consolidated Working Capital at Beginning of Period.....	1,422,836	1,704,508
Consolidated Working Capital at end of Period.....	\$1,411,584	\$1,688,219

To the Shareholders of

FINLAYSON ENTERPRISES LTD.

The decline in demand for the products your Company sells, which started in the last half of 1974, reached bottom in the summer months of 1975. Sales increased in the last quarter of the year 1975. As a result total sales gained almost 7% in the year 1975 versus 1974. There was a larger demand for fragrances, cosmetics and infants' wear with only the household textile division showing a decline. A corporate simplification programme was instituted which created economies. The overall result was an increase in profits after all charges from \$43,387 in 1974 to \$161,317 in 1975.

During the year particular attention was given to the introduction of new products and to strengthening your Company's sales personnel. In the Beauty division several new groups of products were introduced and reception in the trade has been very satisfactory. An important new fragrance will be added to the Wood group in the last half of the current year which should increase sales in this division. Also a new group of products are being added in the household textile division. The Cezanne cosmetic division is experiencing greater acceptance of its products. It is felt that this will turn into a profitable unit. Necessary personnel in manufacturing, sales and administration have been added. While this entails increased costs, it is believed this is the only way the Company can continue to expand its business.

Despite the introduction of the anti-inflation legislation which has caused uncertainties and unrest in the trade, we are budgeting for record sales and profits in the year 1976. Sales in the first two months of the year in all divisions have shown substantial increases over the same period last year. Your Company is in a strong financial position. In August 1976 the last payment on our long term debt will be made. Unless business conditions deteriorate, we are anticipating a good year in 1976.

R. W. FINLAYSON
President

March 26, 1976

FINLAYSON ENTERPRISES LTD.

AND SUBSIDIARIES

Consolidated Balance Sheet

ASSETS

	1975	1974
CURRENT		
Cash	\$ 22,394	\$ 59,254
Short term deposit receipts	—	10,000
Accounts receivable	1,432,976	933,387
Merchandise inventories, at lower of cost and net realizable value	1,572,370	1,437,635
Income taxes refundable	10,175	—
Prepaid expenses	117,077	113,422
TOTAL CURRENT ASSETS	3,154,992	2,553,698
FIXED		
Equipment, automotive equipment and leasehold improvements, at cost	623,625	572,503
Less accumulated depreciation	439,900	402,686
TOTAL FIXED ASSETS	183,725	169,817
OTHER		
Cash value of life insurance policies	58,199	55,367
Approved on behalf of the Board:		
R. W. FINLAYSON, <i>Director</i>		
G. A. BODDY, <i>Director</i>		
	<u>\$3,396,916</u>	<u>\$2,778,882</u>

AUDITORS' REPORT

To the Shareholders

FINLAYSON ENTERPRISES LTD.

We have examined the Consolidated Balance Sheet of Finlayson Enterprises Ltd. and Subsidiary Companies as at 31 December 1975 and the Consolidated Statements of Retained Earnings, Profit and Loss and Changes in Financial Position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these Consolidated Financial Statements present fairly the financial position of the Companies as at 31 December 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TORONTO, ONTARIO, 15 March 1976

DUNWOODY & COMPANY
Chartered Accountants

ENTERPRISES LTD.

COMPANIES

as at 31 December 1975

LIABILITIES

	1975	1974
CURRENT		
Bank indebtedness	\$ 332,183	\$ 350,260
Note payable, note 2	155,000	—
Accounts payable and accrued charges	1,093,696	642,588
Income and withholding taxes	56,503	75,014
Current portion of long term debt, note 3	61,498	63,000
TOTAL CURRENT LIABILITIES	1,698,880	1,130,862
LONG TERM DEBT, note 3	—	61,498
	1,698,880	1,192,360
SHAREHOLDERS' EQUITY		
SHARE CAPITAL		
Authorized		
2,228,758 6% cumulative preferred shares of par value \$1 each, redeemable at the amount paid up thereon		
116,133 Common shares of no par value		
Issued and fully paid		
700,353 Preferred shares	700,353	700,353
77,817 Common shares	281,671	281,671
	982,024	982,024
RETAINED EARNINGS	716,012	604,498
TOTAL SHAREHOLDERS' EQUITY	1,698,036	1,586,522
	\$3,396,916	\$2,778,882

Consolidated Statement of Retained Earnings for the Year Ended 31 December 1975

	1975	1974
BALANCE, BEGINNING OF YEAR	\$ 604,498	\$ 635,815
Net profit for year	161,317	43,387
	765,815	679,202
Cash dividends paid during the year		
Preferred shares	42,021	51,359
Common shares	7,782	23,345
	49,803	74,704
BALANCE, END OF YEAR	\$ 716,012	\$ 604,498

FINLAYSON ENTERPRISES LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Profit and Loss for the Year Ended 31 December 1975

	1975	1974
SALES (net), note 4	<u>\$6,634,878</u>	<u>\$6,217,836</u>
Profit on operations for the year, before accounting for the undernoted items	209,274	205,696
Add: Income from investments	—	27,141
	<u>209,274</u>	<u>232,837</u>
Less: Interest on indebtedness not initially maturing within one year	7,375	12,059
Provision for depreciation and amortization of fixed assets	45,596	46,808
	<u>52,971</u>	<u>58,867</u>
PROFIT BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	156,303	173,970
Income taxes	70,986	130,583
PROFIT BEFORE EXTRAORDINARY ITEM	<u>85,317</u>	<u>43,387</u>
Extraordinary item		
Income taxes recovered on loss carry forward	76,000	—
NET PROFIT FOR YEAR, note 7	<u>\$ 161,317</u>	<u>\$ 43,387</u>

Consolidated Statement of Changes in Financial Position
for the Year Ended 31 December 1975

SOURCE OF FUNDS

Operations

Net profit for year	\$ 161,317	\$ 43,387
Depreciation and amortization, items not requiring an outlay of funds	45,596	46,808
FUNDS OBTAINED FROM OPERATIONS	206,913	90,195
Proceeds on disposal of fixed assets	6,739	8,528
TOTAL FUNDS OBTAINED	<u>213,652</u>	<u>98,723</u>

APPLICATION OF FUNDS

Acquisition of fixed assets	66,243	84,130
Increase in cash value of life insurance policies	2,832	2,925
Reduction of long term debt	61,498	63,002
Redemption of preferred shares	—	155,634
Dividends paid during year—Preferred shares	42,021	51,359
—Common shares	7,782	23,345
TOTAL FUNDS APPLIED	<u>180,376</u>	<u>380,395</u>
INCREASE (DECREASE) IN CONSOLIDATED WORKING CAPITAL	33,276	(281,672)
Consolidated working capital, beginning of year	1,422,836	1,704,508
CONSOLIDATED WORKING CAPITAL, END OF YEAR	<u>\$1,456,112</u>	<u>\$1,422,836</u>
CONSOLIDATED WORKING CAPITAL		
Current assets	\$3,154,992	\$2,553,698
Current liabilities	1,698,880	1,130,862
	<u>\$1,456,112</u>	<u>\$1,422,836</u>

FINLAYSON ENTERPRISES LTD.

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 1975

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies each of which is wholly-owned.

2. NOTE PAYABLE.....	<u>\$155,000</u>
On demand, 9.75%, payable to a Director of the Company.	

3. LONG TERM DEBT	1975	1974
7% unsecured debenture.....	\$ 60,000	\$120,000
Industrial Development Bank loan	1,498	4,498
	61,498	124,498
Current portion	61,498	63,000
	<u>\$ —</u>	<u>\$ 61,498</u>

The 7% unsecured debenture is repayable 8 August 1976. The debenture is held by a Director of the Company.

The Industrial Development Bank loan is secured by a specific charge on certain equipment and fixtures of a subsidiary as well as a first floating charge on the remainder of the subsidiary's assets. The loan is repayable in monthly instalments of \$250 plus interest at the rate of 9% per annum.

4. CLASSES OF BUSINESS

As required by the Canada Corporation Act the Directors are of the opinion that the proportion of sales from the different classes of business is as follows:

	1975	1974
Textiles.....	\$5,087,452	\$5,127,531
Cosmetics and toiletries.....	1,547,426	1,090,305
	<u>\$6,634,878</u>	<u>\$6,217,836</u>

5. REMUNERATION OF DIRECTORS AND OFFICERS

As defined in the Canada Corporations Act the aggregate remuneration of the seven Directors of the Company as Directors amounted to \$2,000 (1974—\$2,000); the aggregate remuneration of the five Officers of the Company as Officers amounted to \$93,000 (1974—five—\$95,500) and one of the Directors and Officers received \$5,220 (1974—\$6,000) from a subsidiary company as an Officer of that Company. Four of the Officers of the Company are also Directors.

As defined in The Securities Act (Manitoba) the aggregate direct remuneration paid or payable to Directors and Senior Officers amounted to \$204,041 (1974—\$247,607).

6. LOSSES CARRY FORWARD

Losses for taxation purposes of approximately \$118,000 are available in certain of the group companies for application against future years' profits of which approximately \$15,000 expire in 1977, \$2,000 in 1978, \$98,000 in 1979 and the remainder in 1980.

7. EARNINGS PER COMMON SHARE	1975	1974
Profit before extraordinary item	\$0.56	(\$0.08)
Extraordinary item.....	0.97	—
Net profit for year.....	<u>\$1.53</u>	<u>(\$0.08)</u>

8. FOREIGN EXCHANGE

Liabilities in foreign currencies are converted at the rates of exchange in effect as at 31 December 1975.

9. CONTINGENT LIABILITY

Certain of group companies are appealing from a decision of the Tax Review Board upholding income tax re-assessments totalling approximately \$190,000 including interest for the years 1966 to 1968. No provision has been made in the accounts for these re-assessments as it is the opinion of counsel that the Company should probably be successful in having the re-assessments set aside.

10. UNFUNDED PENSION BENEFITS

The Company's liability under its employee pension plan for unfunded past service amounted to approximately \$18,500 which is required to be funded in equal annual instalments of approximately \$2,300 over the next eight years.

11. ANTI-INFLATION LEGISLATION

The Company is subject to dividend restrictions under the Anti-Inflation Act. For the period 1 January 1976 to 13 October 1976, dividends at the regular rate can be paid on the preferred shares and a maximum of \$0.30 per share can be paid on the common shares.

